No. 21,522

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In the

United States Court of Appeals

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For the Ninth Circuit

R. G. Smith, doing business under the name and style of Ta'Ron, Inc., and International Fragrances, Inc.,

Appellants,

vs.

Chanel, Inc. and Chanel Industries, Inc.,

Appellees.

Petition for Rehearing and Suggestion for Rehearing in Banc Filed by Petitioners Chanel, Inc. and Chanel Industries, Inc.

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SUGGESTION FOR REHEARING IN BANC

Pursuant to Rule 35(b), Federal Rules of Appellate Procedure, Petitioners suggest the appropriateness of rehearing this matter in banc. Such appropriateness is based on the important questions involved in this proceeding in the areas of trademark protection and unfair competition namely, whether a valid trademark can be appropriated and exploited by a competitor in connection with the promotion and sale of the competitor's product or whether such action infringes the trademark or constitutes unfair competition. The decision of the Court poses a grave danger to the

trademark system as it exists today, and it would be unfortunate if the doctrine articulated in the Court's opinion took root as a result of the decision.

PETITION FOR REHEARING

Petitioners respectfully submit that the decision of the Court seriously misconceives the character and extent of the protection afforded the owner of a valid trademark under our trademark system. The Court's decision approves and ratifies the appellants' exploitation of petitioners' trademark "Chanel No. 5" on the purported basis of the public interest and the encouragement of competition. Petitioners believe that such exploitation cannot be justified on any valid basis in law and that the effect of the decision of the Court is in fact to erode the public interest in the continued vitality of the trademark system and the encouragement of *fair* competition as distinguished from unfair competition.

In essence, this Court has held that one who attempts to copy a product sold under a trademark may use such trademark in his advertising to try and sell his own goods, so long as the advertising copy does not misrepresent or is not likely to confuse purchasers as to the origin or sponsorship of the alleged duplicate.[1] In practical effect no relief will be accorded the trademark owner under these circumstances on the basis of possible dilution of the value of the trademark or possible damage that may result from such exploitation of the trademark by the copier—the copier is thus free to capitalize upon the selling power of "Chanel No. 5". This rule is said to rest on the premise that the only legally relevant function of a trademark is to impart information as to the source or sponsorship of the product.

Ownership of a trademark affords certain protections which have important legal consequences for the owner as well as for

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1. The District Court in enjoining this form of advertising considered it be an attempt "to take a free ride on plaintiffs' widespread goodwill and reputation". *Finding of Fact XI.*

the consuming public. It has long been recognized that the trademark area involves the balancing of competing interests—that of the purchaser concerned with obtaining cheaper copies of well known goods; that of the copier who seeks entry into the market through such techniques; that of the purchaser concerned with obtaining "quality" for his money by reliance on trademarked goods; and that of the producer of such quality goods who through long effort and considerable expenditure has acquired a widespread reputation for quality and has earned the right to enjoy the benefits resulting from such reputation free from the parasitic efforts of copiers purportedly selling "equivalent" goods through the use of the very trademark that is the originator's symbol of quality. No one has stated it more incisively than Mr. Justice Frankfurter:

> "The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress."
>
> *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.,* 316 U.S. 203, 205 (1942)

It is apparent that the District Court decision in this case was grounded in the recognition of the economic value of the Chanel trademark—a value that was deemed entitled to protection. Whether appellants' use of the mark be considered as a "free

ride" or an attempt at "palming off", e.g. *Harold F. Ritchie Inc. v. Chesebrough-Ponds Inc.,* 281 F.2d 755 (2d Cir. 1960), it is the protection of the trademark from objectionable exploitation by another that is involved—a protection that the District Court afforded in this case and which this Court should recognize and affirm.

The opinion of this Court holding that the advertising involved in this case may not be enjoined, notes the absence of any contrary holdings by Federal or California appellate courts. There is in fact no dearth of case law in this area and the cases though not controlling reflect the courts' awareness of the problems posed by the "commercial hitchhiker" and are significant in evidencing the relief that has been afforded in this area. In *Winthrop Chemical Co. v. Blackman,* 246 App. Div. 234, 285 N.Y.S. 443 (1936) the defendant was enjoined from advertising its drug by the use of plaintiff's trademarks and such phrases as "equivalent to . . . ." and "introduced as . . . .", the Court concluding that the practice was designed to foist the defendant's product on the buyer.

In *Anheuser-Busch Inc. v. Niles*, 126 U.S.P.Q. 466 (N.D.Ill. 1960), plaintiff's slogan and trademark "where there's life . . . there's Bud" was protected by enjoining the use by defendant of "where there's life . . . there's bugs" in connection with the marketing of a floor wax and insecticide combination, the court holding that plaintiff's slogan and trademark would be diluted and impaired and the goodwill associated therewith disparaged and degraded. See also *Anheuser-Busch Inc. v. Chemical Corp. of America,* 126 U.S.P.Q. 464 (ND Fla. 1960), aff'd 306 Fed.2d 433 (5th Cir. 1962).

Metropolitan Opera Association, Inc. v. Wagner-Nichols Recorder Corp., 199 Misc. 786, 101 N.Y.S.2d 483, aff'd 279 App. Div. 632, 107 N.Y.S.2d 705 (1951) was a "record pirating" case, that involved *inter alia,* the exploitation of plaintiff's name. Aside from the danger to plaintiff's reputation and goodwill and to the sale of authorized metropolitan opera recordings posed by

the inferior quality of defendant's transcriptions, the Court recognized that involved in the case was defendant's trading on and appropriating the *value* of plaintiff's name and reputation. In discussing the extension of relief beyond the "palming off" situation the Court stated:

> "With the passage of those simple and halcyon days when the chief business malpractice was "palming off" and with the development of more complex business relationships and, unfortunately, malpractices, many courts, including the courts of this state, extended the doctrine of unfair competition beyond the cases of "palming off". The extension resulted in the granting of relief in cases where there was no fraud on the public, but only a misappropriation for the commercial advantage of one person of a benefit or 'property right' belonging to another". 101 N.Y.S.2d 489

In *Fonotipia Limited v. Bradley,* 171 F. 951 (C.C.E.D.N.Y. 1909), also involving duplication of musical performances and use of plaintiff's name to publicize that fact, the court stated:

> "It cannot now be determined how far such appropriation of ideas can be prevented; but it would seem that where a product is placed upon the market, under advertisement and statement that the substitute or imitating product is duplicate of the original, *and where the commercial value of the imitation lies in the fact that it takes advantage of and appropriates to itself the commercial qualities, reputation, and salable properties of the original, equity should grant relief.*" 171 F. 964 (emphasis supplied)

In *Flexitized Inc. v. National Flexitized Corp.* 335 F.2d 774 (2nd Cir. 1964) the Court of Appeals for the Second Circuit held that state law rather than Federal governed the claim of unfair competition there involved. It further held that defendant's use of "Flexitized", nevertheless constituted unfair competition under the law of New York, even though plaintiff's trademark was deemed invalid. The Court stated:

"Relief against unfair competition in cases like this is no longer limited in New York to situations where secondary meaning has been established so that a defendant can be charged with passing off his goods as those of another but rather, as a result of doctrinal development in the wake of the United States Supreme Court's classic decision in *International News Service v. Associated Press,* 248 U. S. 215 39 S. Ct. 68, 63 L. Ed 211 (1918), relief has been granted in New York in a wide variety of situations to insure that 'one may not misappropriate the results of the skill, expenditures and labors of a competitor." 335 F.2d 781 (citations omitted).

Finally, in California, Unfair Competition is defined in Civil Code, Section 3369 as including unlawful, *unfair* or fraudulent business practice and *unfair,* untrue or misleading advertising. In *Metro-Goldwyn-Mayer, Inc. v. Lee,* 212 C.A.2d 23 (1963) defendants sought to exploit plaintiff's film title "the Wonderful World of the Brothers Grimm" by use of a variation of the key words. In addition to holding defendant's advertising misleading, the Court stated:

"A second basis for the decision rendered by the trial court is set out in the statute, to wit: Use of the advertising slogan employed here is manifestly unfair to the plaintiff. Both plaintiff and defendant concur in view that extensive prerelease publicity is an economic necessity in the film industry. To permit defendants to describe their picture as they have done here allows trading on plaintiffs' expenditure of time, money and effort in securing the necessary advance interest in their film and causes a dilution of the interest generated by those efforts. In other words, it permits diversion of trade to defendants' film at the expense of plaintiffs' efforts by virtue of public confusion arising from defendants' misleading advertisements. ' "Advertisements stating or suggesting that the one advertising possesses the good will of one well known in business, when such is not the fact, constitutes unfair competition." ' (Hoover Co. v. Groger, 12 Cal.App.2d 417, 420). This rationale is equally applicable where defend-

ant seeks to take advantage of public desire to see the subject film which has been created by plaintiff's publicity campaign." (212 C.A.2d 29)

It is respectfully submitted that this Court has misread the rule of *Saxlehner v. Wagner*, 216 U.S. 375 (1910), which case involved *only* the defendant's use of "Hunyadi" on its artificial bitter water.[2] Following the principle of *Singer v. June*, 163 U.S. 169 (1896), that descriptive terms or the name by which a product has become known (even if once an arbitrary or personal name) may be used in connection with copies of the product, the Supreme Court held the defendant entitled to use the descriptive and geographical term, "Hunyadi". In other words, the "goodwill of the goods" includes the right to use the name; it is inseparable from the right to copy the goods.

But Mr. Justice Holmes conditioned the use of the name on the defendant's properly guarding against deception in order that he not also use the "goodwill of the name", i.e., "such trademark or trade name as she (the plaintiff) may have" (216 U.S. at 380).

When the following year, the Supreme Court heard *Jacobs v. Beecham*, 221 U.S. 263 (1911), a similar case except that the designation "Beecham's" had *only* trademark significance ("It had not left the originator, to travel with the goods", 221 U.S. at 272), Mr. Justice Holmes confirmed the right to copy the product but denied the right to use the trademark even though the copier gave notice of his manufacture.

The rule is: A copier may use the name or description of the goods in connection with his copy, but he may not use the originator's trademark, even though he explains his responsibility for the copy. Since the record is devoid of any evidence that "Chanel No. 5" has any significance other than as a trademark (i.e., it describes only origin in Petitioner), Appellant was properly en-

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2. The use of "Janos" was not in issue, it had been dropped by the defendant before suit (216 U.S. at 377, 380) and the court below indicated there was "no trademark shown" (157 F. at 749).

joined from using it. There simply is not any "goodwill of the goods" available for Defendant's use.

The case of *Viavi Co. v. Vimedia Co.*, 245 F. 289 (8th Cir., 1917) is either properly based on *Saxlehner,* in that there was insignificant use of the trademark by the copier (the case is silent as to the descriptive significance of the mark as the infringement claim was abandoned), or the 8th Circuit fell into the same error to which Appellant has led this Court. Similarly, the holding in *Societe Comptoir de L'Industrie Cotonniere Etablissements Boussac v. Alexander's Department Stores, Inc.*, 299 F.2d 33 (2d Cir., 1962) (which was not based on *Saxlehner*) either was influenced by the fact that the trademark owner had licensed others (perhaps improperly) to copy its designs and use its trademark so that it did not have exclusive use, or it conflicts with the *Saxlehner* rule.

Assuming the latter, if the lower ethical standards of the *Societe Comptoir* ruling are to govern the current market place, this Court is earnestly solicited to consider Mr. Justice Holmes' Maxim: *Corruptio Optimi pessima* (*Jacobs,* 221 U.S. at 271), and to foster a current pronouncement of the rule in the Supreme Court by rendering a decision on rehearing in conflict with *Societe Comptoir.*[3] Implicit in the current holding of this Court is that all trademarks are descriptive and, therefore, may be used by competitors with impunity.

The danger that a trademark may lose its distinctiveness and become available for use by all as a generic or descriptive term most often arises as a result of the success of the mark itself—the more successful the mark the greater appeal it possesses for competitors. If competitors may freely use another's registered mark—avoiding only confusion as to the source of the goods—

3. In *Trail Chevrolet, Inc. v. General Motors Corp.*, 381 F.2d 353 (5th Cir., 1967) also cited by the Court, use of the trademark in connection with other than the authentic product was prohibited. The "refill fits ...." cases like *American-Marietta Co. v. Krigsman,* 275 F.2d 287 (2d Cir., 1960) do not involve use of a trademark to describe a product but to indicate the destination or use of a product.

may not a mark lose its distinctiveness and become generic, not because of any conduct of the trademark proprietor, but because of the license to poach granted to his competitors? While that is precisely the danger posed by appellants' use of "Chanel No. 5" in this case, the Court in its opinion has accorded little weight to this argument, stating that the Appellants do not use the mark as a generic term but employ it "only to describe Appellees' product not to identify their own."

The difficulty with this conclusion is that it contravenes what Appellants are actually attempting to accomplish by their advertisement and also what they contend has *already* occurred with respect to Petitioners' trademarks. First, it is difficult to view the advertisement involved herein as merely an attempt to use Petitioners' mark to describe Petitioners' product. By claiming 100% exact duplication, Appellants are in fact using the mark to describe and enhance their *own* product or else there is no point in using the mark or making the claim at all.! It is the very essence of comparative advertising. Second, in *Bristol-Myers Co. v. R. H. Macy & Co., Inc.*, 151 F. Supp. 513 (S.D.N.Y. 1957) the Court held defendant to have diluted the distinctive quality of plaintiff's trademark "Bufferin" by attempting to render it generic and descriptive via comparative advertising. That is precisely what is involved in the instant case. Appellants have been more than candid as to their real objectives in this case—they mean to destroy the value of Petitioners' trademarks. In the answer filed to Petitioners' complaint Appellants have alleged that "Chanel No. 5" and "No. 5" do not have a secondary and distinctive trademark meaning to the public but are generic expressions. In their counterclaim they allege that the marks have "become and are the common descriptive name of a fragrance and scent" and that each mark is in fact a generic name. They further seek to have the Court formally invalidate the trademarks.

In the light of these contentions it should be obvious that the thrust of Appellants' advertisement is the use of "Chanel No. 5"

as a generic term to describe their own scent. It is also apparent that their use of Petitioners' trademark in the advertisement poses the very threat they seek to consummate. Certainly the District Court in its Findings determined that the threat was real and the Petitioners' marks entitled to protection. That finding ought not to be now overturned by this Court on the basis that the danger is "slight" and outweighed by the maintenance of "effective competition"—unless "effective competition" is to be read as unprincipled competition.

In the interest of "promoting" competition, this Court has in effect given the green light to "piggy-back" or comparative advertising of the type involved here. We submit this was unwarranted in the light of the facts and the real danger to *fair* competition posed by Appellants' actions. What has been overlooked is that it is *Appellants* who have refused to enter the competitive market place with a product sold on the basis of its own merit. Rather than compete they have tried to take and exploit for themselves the good will and reputation that Petitioners have created through the expenditure of considerable time, money and merchandising skill. This we say they should not be allowed to do. Put another way, hundreds of other perfumes, colognes and toilet preparations have come on the market to compete with "Chanel No. 5". They have not found it necessary to describe their scents by resort to Chanel's trademark. The District Court held that Appellants should be compelled to market their product in the same manner. This Court should affirm. Petitioners therefore pray for a rehearing.

Respectfully submitted,

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